

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1797

February 6, 2014

SUMMARY OF BILL: Exempts from franchise and excise (F&E) tax any entity that: has had its principal place of business or national or international headquarters located in China for at least two years prior to July 1, 2014; has at least 75 percent of its business activities or capital investments in China; has previously established its principal place of business or headquarters in the United States prior to relocating to China; and constructs, relocates or expands its headquarters or principal place of business in Tennessee on or after July 1, 2014, and creates at least 50 new full-time jobs within a period of two years following such construction, relocation or expansion. Limits the exemption to 10 years from the date it is granted.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$50,000/FY14-15

Exceeds \$100,000/FY15-16 and Subsequent Years

Forgone State Revenue – Exceeds \$100,000/FY15-16 and Subsequent Years

Other Fiscal Impact – Additional economic impacts may occur as a result of this bill. However, due to many unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- The number of companies that will qualify for the proposed F&E tax exemption that are currently in the process of or planning to relocate or expand their headquarters to Tennessee is unknown. Any impact to state revenue from exempting such companies from their F&E tax liability will be considered a decrease in revenue.
- It is unknown how many qualifying companies will relocate or expand their headquarters to Tennessee as a direct result of this bill, but would not do so under current law. Any impact to state revenue from exempting such companies from their F&E tax liability will be considered forgone revenue.
- Based on information provided by the Department of Revenue, it is estimated that the recurring decrease in state revenue as a result of this bill will exceed \$100,000. The first-

year impact (FY14-15) will exceed 50 percent, or \$50,000, of the recurring annual impact.

- It is further estimated that the recurring forgone state revenue as a result of this bill will exceed \$100,000. Due to the time required to relocate or expand headquarters and meet all the requirements outlined in this bill, it is estimated that in FY14-15 no F&E tax exemptions will be given to companies that will relocate or expand in Tennessee as a direct result of this bill, but would not otherwise do so.
- There could be subsequent impacts to state and local governments as a result of this bill. However, due to many unknown factors, such as the number of companies relocating to and expanding in Tennessee, the number of jobs created by such companies that would not otherwise be created under current law, the average wages for such jobs, and spending habits of new job holders, any such impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read 'Lucian D. Geise', is positioned above the printed name.

Lucian D. Geise, Executive Director

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